7099

Community Outreach Tax Assistance

Topical Outlines

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FOREWORD

COMMUNITY OUTREACH TAX ASSISTANCE

Community Outreach Tax Assistance is one of the Taxpayer Education Programs provided by the Internal Revenue Service. The program is designed to assist taxpayers interested in preparing their own returns through Group Income Tax Return Preparation (self-help) sessions or those interested in learning about their tax rights and responsibilities through Tax Information Seminars.

The following pages contain topical outlines that have been prepared to address some of the most asked-for subjects in Tax Information Seminars. The outlines are for the instructor's guidance and are not to be used as handouts.

USING THE OUTLINES

The modules provided are not all inclusive, but they will furnish the instructor a starting point from which the required presentation can be developed. The main purpose of the outlines is to ensure coverage of important points in instructing a class or seminar, while reducing instructor "prep" time. Outlines deliberately do not contain money amounts or percentages which could constantly change, so it is important for each instructor to check for recent updates in tax law and to develop the outlines accordingly.

In many cases, several outlines may be put together to gear a seminar toward a special group of taxpayers. For example, a seminar for sole proprietors could be expanded to include the outlines on depreciation or recordkeeping.

OTHER SOURCES OF INFORMATION

Reference materials, publications, and service organizations are recommended in each outline, giving the instructor the flexibility to expand or condense a seminar to suit the occasion. NOTE: Several outlines refer to the IRS Library Program. If instructors choose to refer taxpayers to a library for information, they should explain that the librarians offer tax forms and publications as a service, but are not tax specialists able to respond to technical inquiries.

Regional or district offices may wish to add information or additional outlines as appropriate. Examples of items which could be added are:

Time and travel reporting for IRS employees

Travel and other expenses incurred by volunteers

Information regarding planning and organizing a seminar

READEX FICHE best copy available

Topical outlines have been divided into three areas:

1. Individual Income Tax Modules - Basic information for the individual filer.

2. Business Tax Modules - Information for the small business or farm owner, including employment taxes.

3. Miscellaneous Modules - Topics that, because of their nature, could apply to a business or individual filer.

No outline is included in this guide for a Group Income Tax Return Preparation (self-help) session. A class of this type normally involves "walking through" a particular tax form, eliminating the need for an outline.

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Outline 1

RETIREMENT TAX PLANNING

Focus:	References
Emphasize requirements and special benefits for retirees and pre-retirement planners.	Publication 554, Tax Information for Older Americans Publication 17, Your Federal Income Tax

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INTRODUCTION

1. Retirement can cause many changes to a taxpayer's income tax situation.

   Emphasize possible need to make estimated tax payments return (1040-ES voucher) and impact of Tax Reform Act

2. Planning before retirement can help to avoid tax problems.

TAXABILITY OF PENSIONS/ANNUITIES

1. 3-year rule.

   Persons whose annuity starting date is after July 1, 1986, will be ineligible to use this rule.

2. General rule.

   All taxable pensions and annuities beginning after July 1, 1986, will be taxed under the general rule.

3. Nontaxable pensions.

SPECIAL ISSUES

1. Lump sum distributions.

The Tax Reform Act of 1986 repeals the special 10-year averaging and replaces it with a special 5-year averaging for certain individuals. (Effective January 1, 1987.) Note that persons age 50 or over on Jan. 1, 1986, may choose 10-year averaging using 1986 tax rates.

2. Withholding and/or estimated tax.

Emphasize impact Tax Reform Act of 1986 may have on tax liabilities and need to file new Form W-4 or W-4P. (See Outline 3, Estimated Taxes.)

3. Sale of Residence

See Capital gains and losses, below, and Outline 8, Sale of Residence.

4. Credit for the elderly and disabled.

See Module 2.

5. Taxability of certain payments.

   a. Social security benefits.

   b. Railroad retirement

6. Capital gains and losses

Long-term capital gain deduction was repealed by the Tax Reform Act of 1986 (effective January 1, 1987). Top tax rate generally is 28%.

7. Higher standard deduction for those 65 or older who do not itemize

SUMMARY

1. Overview of requirements and benefits for retirees.

   a. General/3-year rule.

   b. Lump sum distributions.

   c. Withholding and estimated tax payments.

2. Tax benefits.

   a. Sale of residence.

   b. Credit for elderly and disabled.

   c. Social security.

   d. Higher standard deduction.

3. Peferrals.

   a. VITA/TCE.

   b. Toll-free and walk-in service.

   c. Other agencies.

   d. Other publications.

   Publication 505, Tax Withholding and Estimated Tax.

   Publication 524, Credit for the Elderly or the Disabled.

   Publication 523, Tax Information on Selling Your Home.

Publication 554, Tax Information for Older Americans

Publication 575, Pension and Annuity Income.

Publication 910, Taxpayer's Guide to IRS Information and Assistance.

Publication 915, Social Security Benefits and Equivalent Railroad Retirement Benefits.

Outline 2

SCHEDULE R

Focus:

Explain who qualifies and the amount of credit available for the elderly or disabled.

References:

Publication 524, Credit for the Elderly or the Disabled

Publication 17, Your Federal Income Tax

Schedule R

INTRODUCTION

1. The purpose of the form.

2. The qualifications for using it.

WHO MAY USE SCHEDULE R

1. Age 65 or older.

2. Permanently and totally disabled.

COMPUTATION OF CREDIT

1. Dollar limitation by category (based on age and filing status).

2. Computations.

   a. Taxable disability income.

   b. Social security/railroad retirement payments.

   c. Certain nontaxable income

Give examples of income excludable prior to Tax Reform Act of 1986.

3. Income limitations (based on filing status).

4. Amount of credit.

   a. Cannot exceed tax liability.

   b. Cannot carry forward.

SUMMARY

1. Who may claim.

2. Computation.

3. Limitations on the credit.

4. Other references.

   a. VITA/TCE

   b. IRS toll-free telephone,
      and walk-in service.

   c. Social service agencies.

   d. Other publications, as appropriate.

Outline 3

ESTIMATED TAXES

Focus:

Explain the method used to pay Federal income tax and self-employment tax on income that is not subject to withholding.

References:

Publication 17, Your Federal Income Tax

Publication 505, Tax Withholding and Estimated Tax

Form 1040-ES

Form 2210, Underpayment of Estimated Tax by Individuals

ESTIMATED TAXES

1. Paid on income not subject to withholding

2. Like withholding, part of "pay as you go" tax system.

Explain how Tax Reform Act of 1986 will affect tax liability.

PAYING ESTIMATED TAXES

1. How to figure the estimated tax.

2. When to pay.

   a. General rule.

   b. Special rules for farmers and fishermen.

Prepare Form 1040-ES Worksheet.

c. How much to pay.

100% of prior year's tax liability; or 90% of 1988 tax liability.

3. How to pay.

4. Alternatives to paying estimated taxes if employed.

Taxpayer can file a new Form W-4 requesting employer to withhold an additional amount.

UNDERPAYMENT OF ESTIMATED TAX

1. Exceptions to the penalty.

2. Figuring the penalty.

SUMMARY

1. Restate reasons for and how to pay estimated taxes.

2. Referrals.

   a. VITA/TCE

   b. IRS toll-free telephone, and walk-in service.

   c. Social service agencies.

   d. Other publications, as appropriate.

Outline 4

INFORMATION FOR DIVORCED OR SEPARATED INDIVIDUALS

Focus:

Describe federal income tax rules of interest to divorced or separated individuals.

References:

Publication 17, Your Federal Income Tax

Publication 504, Tax Information for Divorced or Separated Individuals

Form 8332, Dependency Exemption for Child of Noncustodial Parent

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INTRODUCTION

1. Married or unmarried.
   a. Status on last day of year determines.
   b. Exceptions - head of household for some cases; widow/widower
2. Joint return.
   a. Both responsible for tax.
   b. Usually best tax rate and credits available.

Tax Reform Act of 1986 repeals two-wage-earner deduction effective January 1, 1987.

3. Married filing separately.
4. Head of household.
   a. Maintain home for a relative.

b. Better tax rate than single, with more possible tax credits.

5. Single.

DEPENDENTS

1. New rules for post-1984 divorce agreements.

   a. Custodial parent.

   b. Form 8332 to release claim for exemption.

2. Pre-1985 agreements.

   a. Divorce decree.

   b. Primary support - over 50 percent.

3. Tax Reform Act of 1986 requires Social Security numbers for dependents 5 years of age or older, effective January 1, 1988.

4. Standard deduction limited for dependents who can be claimed on someone else's return.

5. Medical expenses for dependents or child who is not a dependent.

Tax Reform Act of 1986 increases floor from 5% (1986) to 7.5% after 1986.

ALIMONY

1. New rules for post-1984 divorce agreements.
2. Qualifying alimony payments.

Tax Reform Act of 1986 limits amount of deduction for certain payments.

3. Recapture.

COMMUNITY INCOME

For community property states, include appropriate information.

PROPERTY SETTLEMENTS

1. Transfers of property after July 18, 1984.

2. Transfers before July 19, 1984.

WITHHOLDING AND ESTIMATED TAX

Refer to Outline 3, Estimated Taxes.

SUMMARY

1. Review highlights.

   a. Dependents.

   b. Alimony.

   c. Community income.

   d. Property settlements.

2. Peferrals.

   a. VITA/TCE.

   b. IRS toll-free telephone, and walk-in service.

   c. Social service agencies or community service organizations.

   d. Other publications, as appropriate.

Outline 5

TAX INFORMATION FOR THE MILITARY

Focus:

Explain tax issues of special interest to the military.

References:

Publication 17, Your Federal Income Tax

Publication 678-M, Volunteer Assistor's Guide, Military Module

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INTRODUCTION

Special provisions of the tax law relate to the military.

GROSS INCOME

1. Taxable.

2. Nontaxable.

EMPLOYEE BUSINESS EXPENSES

Refer to Outline 10, Employee Business Expenses.

Under Tax Reform Act of 1986 certain expenses have new limitations and are now to be deducted on Schedule A.

SALE OF RESIDENCE

1. Long term capital gain deduction exclusion is repealed by Tax Reform Act of 1986 and effective January 1, 1987, top tax rate is generally 28%.

2. Emphasize military replacement periods.

3. Stress residence versus investment property.

MOVING EXPENSES

Refer to Outline 9, Moving Expenses.

After 1986, a miscellaneous deduction on Schedule A, not subject to the 2% floor.

ITEMIZED DEDUCTIONS

Refer to Outline 11, Itemized Deductions.

Mortgage interest and real estate taxes are deductible even if paid from exempt allowances.

OTHER PROVISIONS

1. Filing requirements.
2. Standard deduction.
3. Personal and dependency exemptions.
4. Aliens.
5. Earned income credit.
6. Extension of time to file.

SUMMARY

1. Review highlights.
2. Referrals.
   a. VITA and VITA Military Supplement.
   b. IRS toll-free telephone, and walk-in service.
   c. Other publications, as appropriate.
      - Publication 521, Moving Expenses.
      - Publication 523, Tax Information on Selling Your Home.
      - Publication 525, Taxable and Nontaxable Income.

Outline 6

TAX INFORMATION FOR MEMBERS OF THE CLERGY

Focus:

Explain taxable and nontaxable income, expenses and other rules pertaining to the clergy

References:

Publication 525, Taxable and Nontaxable Income

Publication 517, Social Security for Members of the Clergy and Religious Workers

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INTRODUCTION

Who qualifies as a minister for tax purposes?

TREATMENT OF INCOME FOR INCOME TAX PURPOSES

1. Wages or salary.

2. Miscellaneous self-employment income (marriages, funerals, etc.).

3. Parsonage allowance - exclusion from income.

   Ministers may now deduct interest and real estate taxes paid on personal residence even when they have a tax-exempt parsonage allowance; this applies to all tax years and ministers denied these deductions in the past may file a claim for all open years.

4. Travel allowance.

   a. Accountable to church for expenses.

   b. Not accountable to church for expenses.

REPORTING INCOME AND EXPENSES FOR INCOME TAX PURPOSES

1. Wages and salary on appropriate line of Form 1040.

2. Expenses - distinguish between those that must be taken on Schedule A and those allowable on Form 2106.

Stress effect of Tax Reform Act of 1986 on itemized deductions.

3. Miscellaneous self-employment income.

   a. Income - Schedule C.

   b. Expenses--unreimbursed expenses must be taken on Schedule A; only reimbursed expenses are allowable without itemizing

4. Parsonage allowance.

   a. Amount allocated by congregation.

   b. Amount actually used for housing is excludable from income.

   c. Excess allowance reported as other income on Form 1040.

5. Travel allowance.

   a. No accounting to church - included in salary on Form 1040 and expenses on Form 2106.

Stress those provisions of Tax Reform Act of 1986 that affect reporting of some expenses on Form 2106.

   b. Accounting to church - not reported.

TPEATMENT OF INCOME FOR SELF-EMPLOYMENT TAX PURPOSES

1. Wages or salary.

2. Miscellaneous self-employment income (marriages, funerals, etc.).

3. Parsonage allowance.

   a. Subject to self-employment tax, if no exemption received.

   b. Fair rental value.

REPORTING INCOME FOR SELF-EMPLOYMENT TAX PURPOSES

1. Reporting on Schedule SE.

2. Computing income for self-employment tax.

   a. Add wages or salary.

   b. Add Schedule C net income.

   c. Add parsonage allowance.

   d. Subtract travel expenses reported on Form 2106.

   e. Subtract unreimbursed expenses reportable on Schedule A, even if Schedule A cannot be used.

3. Placing income items on Schedule SE.

   a. Enter income on non-farm net income line with an asterisk (*).

   b. Enter footnote explaining computation of income.

EXEMPTION FROM SOCIAL SECURITY COVERAGE

1. Form 4361 to elect exemption.

The minister must, after 1986, notify the ordaining, commissioning, or licensing body of the church that he or she elects the exemption.

2. No Schedule SE if election is approved by IRS.

However, income that is not church-related is subject to both income and FICA or self-employment taxes.

SUMMARY

1. Review income, expenses, and self-employment rules for clergy.

2. Referrals.

   a. VITA/TCE

   b. IRS toll-free telephone, and walk-in service.

   c. Social service agencies.

   d. Local ministers' organizations.

Outline 7

TIP REPORTING FOR EMPLOYEES

Focus:

Explain the reporting requirements and taxation of tip income to employees receiving tips.

References:

Publication 531 Reporting Income From Tips

Publication 1244, Employees' Daily Record of Tips (4070-A) and Employees' Report of Tips to Employer (4070).

SOURCES AND TYPES OF TIPS

1. Directly from customers.
2. Charged tips (paid to employee by employer).
3. Tip splitting.
4. Non-cash.
   a. Reported at fair market value (FMV).
   b. Includes passes, tickets, goods, services, etc.

EMPLOYEE REPORTING REQUIREMENTS

1. Maintenance of a daily, written log.
   a. Strict recordkeeping rules.
   b. Publication 1244 a convenient method.
2. Due dates and dollar criteria.
3. Required information in log, if you do not use Form 4070-A
   a. Employee's name, address and SSN.
   b. Employer's name and address.

c. Calendar month covered.

d. Total of tips received.

e. Signature and date.

WHAT TO EXPECT FROM YOUR EMPLOYER

1. Withhold social security and income tax.

   a. When regular wages sufficient.

   b. When regular wages too small.

2. Provide Form W-2.

   a. Reported tips included in box for wages, tips and other compensation.

   b. Social security wage amount may differ.

   c. Allocated tips.

Group of employees may petition IRS for lower rate.

Individual employee can prove a lesser amount with adequate records.

UNREPORTED TIPS REQUIREMENTS

1. Less than required monthly amount.

2. Form 4137.

3. Penalties.

SUMMARY

1. Restatement of requirements.

2. Other reference sources.

   a. IRS toll-free telephone, and walk-in service.

   b. Publication 17, Your Federal Income Tax.

Outline 8

SALE OF A RESIDENCE

Focus:

Explain the laws which govern the sale of a residence and how to compute the amounts of gain deferred or taxed.

All sales or exchanges must be reported.

References:

Publication 17, Your Federal Income Tax

Publication 523, Tax Information on Selling Your Home

Form 2119, Sale or Exchange of Principal Residence

SALE OF RESIDENCE

1. Gain (or loss) computed on Form 2119.

   Loss is not deductible. 60% of long term capital gain was deductible in 1986, (top effective rate of 20%). Under Tax Reform Act of 1986, no deduction and, effective January 1,1987 top rate of tax generally is 28%.

2. Tax on gain may be deferred.

3. Exclusion for those over 55.

DEFERRAL OF TAX ON GAIN

1. Purchase of new home.

2. Fixing-up expenses.

3. Replacement period.

   a. Special rules for military.

   b. No exceptions to replacement times, except for military and people living abroad.

   c. Occupancy requirement.

4. Deferral is mandatory if home replaced during replacement period, unless taxpayer, age 55 or older chooses to exclude part or all of the gain.

BUSINESS USE OF HOME

1. Ineligible for postponement of tax on the gain on business use portion.

2. Temporary rentals - all circumstances considered.

OVER 55 EXCLUSION

1. Limitations.

2. Once-in-a-lifetime election.

3. Age, ownership, and use requirements.

SUMMARY

1. Review the "who, what, when, and how much" rules for sale of a residence.

2. Other references.

   a. Certain VITA/TCE sites.

   b. IRS toll-free telephone, and walk-in service.

   c. Social service agencies or community service organizations.

Outline 9

MOVING EXPENSES

Focus:

Explain rules for claiming moving expenses for the individual.

References:

Publication 17, Your Federal Income Tax

Publication 521, Moving Expenses

Form 3903

REQUIREMENTS FOR DEDUCTIBLE MOVING EXPENSES

1. Reasonable expense.

2. Expense incurred in connection with new job.

3. Specified time period.

4. Distance test.

WHAT EXPENSES ARE DEDUCTIBLE

Refer to Form 3903 and Publication 521, Moving Expenses.

HOW TO DEDUCT EXPENSES

1. When to deduct.

2. Where to deduct.

For years after 1986, subject to current limitations, on Schedule A (not subject to 2% floor).

3. Reimbursements.

SUMMARY

1. Review requirements for claiming moving expenses, how and when to deduct them.

2. Referrals.

   a. Certain VITA/TCE sites.

   b. IRS toll-free telephone, and walk-in service.

Outline 10

EMPLOYEE BUSINESS EXPENSE

Focus:	References:
Describe allowable employee business expenses and how to deduct them.	Publication 17, Your Federal Income Tax Publication 463, Travel, Entertainment and Gift Expenses Form 2106 and Schedule A

TYPES OF EMPLOYEE BUSINESS EXPENSES

1. Educational.	After December 31, 1986, no deduction allowed for travel when travel itself is the "education."
2. Meals and entertainment.	Stress the 80% limit, keeping records for meal expenses, and the need for taxpayer or an employee to be present.
3. Travel and transportation.	
4. Other types of expenses.	
a. Business use of an automobile.	
b. Moving expenses.	See Outline 9.

WHERE TO DEDUCT EXPENSES

1. Certain expenses must be deducted on Schedule A.	Discuss effects of Tax Reform Act of 1986, and expenses subject to the 2% floor.
2. Form 2106.	Explain which expenses are taken on Form 2106.

3. Other forms.

RECORDKEEPING

1. Required by Internal Revenue Code.

2. Claim for meals is not allowable unless taxpayer substantiates the expense as required by Code.

Explain IRC 274(d).

3. Recordkeeping is covered in more detail by Topic Outline 27.

SPECIAL CONSIDERATIONS

1. Outside salespersons must now claim some expenses (previously claimed on Form 2106) as miscellaneous deductions on Schedule A, subject to the 2% floor.

2. Reimbursed expenses.

3. Discuss home computer expenses, including depreciation and investment credit provisions modified or repealed by Tax Reform Act of 1986.

SUMMARY

1. Review employee business expenses and where to deduct them.

2. Referrals.

   a. Certain VITA/TCE assistance sites.

   b. IRS toll-free telephone, Tele-Tax and walk-in service.

   c. Other IRS Taxpayer Education programs, as appropriate.

   d. Other local, state or Federal agency programs, as appropriate.

   e. Other publications, as appropriate.

Outline 11

ITEMIZED DEDUCTIONS

Focus:

Alert taxpayers to the allowable deductions available, specifying all appropriate changes.

References:

Publication 17, Your Federal Income Tax

Publication 553, Highlights of Tax Law Changes

Publication 910, Taxpayers Guide to IRS Information and Assistance

Form 1040 Instructions

ITEMIZED DEDUCTIONS OVERVIEW

1. Who should itemize.
   a. Itemized deductions vs. standard deduction.
   b. Special situations.
2. Who must itemize.
   a. Certain separate filers.
   b. Certain aliens.
   c. Certain dependents.

MEDICAL AND DENTAL EXPENSES

1. Qualifying expenses.
   a. Self.
   b. Spouse, dependents and others.
2. Nonqualifying expenses.

3. Capital improvements allowable to extent they do not increase fair market value.

4. Medical versus business expense.

5. How to figure your deduction. — 7.5% floor after 1986.

   a. Where to deduct.

   b. When to deduct.

   c. How to account for reimbursement of expenses.

TAXES

1. Qualifying deductible taxes. — Tax Reform Act of 1986 repealed state and local sales tax deduction for 1987 and later years. Deduction for all other taxes unchanged.

2. Nondeductible taxes.

3. Taxes on business property.

4. Where to deduct the various qualifying deductible taxes.

INTEREST EXPENSES

1. Qualifying deductible interest expense. — Review effects of Tax Reform Act of 1986 on interest expense deduction beginning in 1987.

2. Nonqualifying interest expense.

3. Where to deduct qualifying interest expense. — Mortgage interest deductible for ministers and military even if paid from tax exempt housing allowance.

4. Discuss specific changes where appropriate — Review effects of the Revenue Act of 1987 on mortage and home equity deductions for 1988 and subsequent years.

CONTRIBUTIONS

1. Qualifying organizations.

2. Qualifying contributions.

   a. When to deduct.

   b. Where to deduct.

3. Nondeductible contributions.

4. Special considerations.

   a. Limit.

   b. Recordkeeping.

CASUALTY AND THEFT LOSSES

1. Nonbusiness.

   a. Definition.

Tax Reform Act of 1986 allows deduction for non-business losses beginning in 1987 only if timely insurance claim is filed and only to extent loss is not covered by insurance.

   b. Deductible losses.

Tax Reform Act of 1986 lets individuals elect to report losses on deposits in qualified insolvent financial institutions as a casualty loss on Schedule A (or as a short term capital loss on Schedule D). Refer to state laws for qualifications.

   c. Nondeductible losses.

2. Proof of loss.

3. Amount of loss.

   a. Determine the decrease in fair market value.

b. Compute adjusted basis.

4. Insurance and other reimbursements.

5. Computations and limitations on allowable non business losses.

6. When to deduct a loss.

7. How to deduct a non business loss.

   a. Form 4684, Casualties and Thefts.

   b. Schedule A, Itemized Deductions.

MOVING EXPENSES--See Topical Outline 9.

MISCELLANEOUS DEDUCTIONS

1. Overview of current allowable categories.

   a. Deductions subject to 2% limit.

   b. Deductions not subject to 2% limit.

2. Discuss nondeductible items.

SUMMARY

1. Review Schedule A and who should or must itemize.

2. Highlight changes and common questions.

3. Referrals.

   a. VITA/TCE.

   b. IRS toll-free telephone, Tele-Tax, and walk-in service.

   c. Public library, for reference sources.

   d. Other publications, as appropriate.

Outline 12

CHILD AND DEPENDENT CARE CREDIT

Focus:

Explain child and dependent care credit, who can claim it, and how to claim it.

References:

Publication 17, Your Federal Income Tax

Publication 503, Child and Dependent Care Credit

Form 2441, Credit for Child and Dependent Care Expenses

WHO CAN CLAIM THE CREDIT

1. Work requirement.
2. Qualifying persons.
3. Work-related payments.

Beginning in 1988, no credit is allowed for overnight camp expenses.

MARITAL STATUS

1. Joint return.
2. Separated parents.
3. Head of household.

HOW TO CLAIM THE CREDIT

1. Form(s) to file.
2. How to calculate.

3. Limitations.

   a. Earned income limit.

   b. Dollar limit of expenses.

EMPLOYMENT TAXES FOR HOUSEHOLD EMPLOYEES

1. Form 942 (or Form 941)

2. Form 940

3. Forms W-2 and W-3

SUMMARY

1. Review rules and calculation of child and dependent care credit and employment tax obligations.

2. Referrals.

   a. VITA/TCE.

   b. IRS toll-free telephone, and walk-in service.

   c. Social service agencies or community service organizations.

   d. Other publications, as appropriate.

Outline 13

EARNED INCOME CREDIT

Focus:

Explain who may be entitled to this refundable credit.

References:

Publication 17, Your Federal Income Tax

Publication 596, Earned Income Credit

EARNED INCOME CREDIT

1. Eligibility requirements.

    a. Filing status.

    b. Dependent.

    c. Earned income.

    d. Home in United States.

2. Credit computation.

    Explain use of earned income credit worksheet in Form 1040 or 1040A instructions.

3. How to claim the credit.

    Point out that this is a refundable credit and can be claimed even if taxpayer does not owe any tax.

ADVANCE EARNED INCOME CREDIT

1. How to get advance payments.

2. Filing your return.

SUMMARY

1. Review.

    a. Requirements.

    b. Credit computations.

    c. How to claim the credit.

2. Referrals.

    a. VITA/TCE program site.

    b. IRS toll-free telephone and walk-in service.

    c. Tax form instruction book and earned income credit worksheet

Outline 14

SOLE PROPRIETORS

Focus:

Describe the tax requirements for self-employed individuals.

References:

Publication 334, Tax Guide for Small Business

Publication 535, Business Expenses

Schedules C and SE

Form 1040-ES

INTRODUCTION

The responsibilities of being a sole proprietor.

FILING REQUIREMENTS

1. Schedule C.
2. Schedule SE.
3. Form 1040-ES.
4. Information returns.

See Topical Outline 23, Information Returns.

DETERMINING NET INCOME OR LOSS

1. Recordkeeping.

   Stress importance of adequate records for proper determination of income and expenses, and use as proof in audits. Also see Outline 27, Recordkeeping.

2. Business income.

3. Business expenses and credits.

   a. Investment credit provisions.

   b. Modified depreciation rules.

   c. Limits on meals, travel and entertainment.

      Records for meal and entertainment expenses must show a direct relationship to conduct of taxpayer's trade or business.

   d. Health insurance - deduction allowed for 25% of cost for self-employed person and family

CREDITS

1. Investment credit and business energy investment credit.

   Regular investment tax credit repealed for property placed in service after December 31, 1985; stress transitional and carry forward rules.

2. General business credits.

   Form 3800.

OTHER TAXES

1. Employment Taxes.

   See Topical Outline 21.

2. Excise taxes.

SUMMARY

1. Review main points.

2. Referrals.

   a. IRS toll-free telephone and walk-in service.

   b. Other local/state/federal agencies.

   c. Other publications:

      Publication 505, Tax Withholding and Estimated Tax.

      Publication 533, Self-Employment Tax.

      Publication 919, Is My Withholding Correct for 1989?

Outline 15

TAX INFORMATION FOR FARMERS

Focus:

Describe the special aspects of filing as an agricultural sole proprietor.

References:

Publication 225, Farmer's Tax Guide

Circular A, Agricultural Employer's Tax Guide

Schedules D, F, and SE

Form 4797, Gains and Losses from Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions

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INTRODUCTION

Farmers have special tax requirements and provisions.

RECORDKEEPING

Required by Internal Revenue Code

For more emphasis, use Topical Outline 27.

TYPES OF INCOME FROM FARMING

1. Schedule F.

   Discuss limits on expenses for cash basis farmers.

2. Form 4835.

3. Form 4797.

4. Schedule D.

   Discuss passive farm loss and minimum tax rules; review impact of Tax Reform Act of 1986 on capital gains.

5. Information returns.

Review penalties for failure to file or issue, including higher penalties possible after December 31, 1986. See Topical Outline 23.

TYPES OF FARM EXPENSES

1. Ordinary and necessary: Schedule F

Discuss new limits on meals and entertainment expenses and stricter substantiation rules for business meals.

2. Indirect: Depreciation - Form 4562

Discuss the changes to ACRS and the new classes for property placed in service after July 31, 1986; review the increased deduction now available under IRC 179.

3. Expenses allocated between Schedules A and F.

Discuss travel and education expenses as appropriate; use Topical Outline 11, Itemized deductions.

4. Special expenditures.

a. Start up costs.

b. Conservation expenses.

Limited to projects approved by Soil Conservation Service.

c. Land clearing expenses.

Option to expense is repealed for expenses paid or incurred after 1985; must be capitalized and added to basis.

CREDITS

1. Investment tax credit.

See Topical Outline 19.

2. Business energy credit

3. Fuel tax credits.

Form 4136 and Pub. 378.

4. Jobs credits.

See Publication 572, General Business Credit, for details of targeted jobs credit for employees hired after 1985 and before 1989.

TAXES

1. Self-employment tax.	See Topical Outline 20.
2. Employment taxes.	Discuss agricultural crew leaders if appropriate. Discuss the new $2,500 test for determining taxability of farm workers' wages for FICA purposes in 1988. Stress that FICA coverage in 1988 includes children age 18 or over (used to be 21 or over) employed by a parent, and individuals employed by their spouses. See Topical Outline 21.
3. Excise taxes.	Refer to Publications 349 and 510; Forms 720 and 2290; and Topical Outline 25.

SUMMARY

1. Overview of recordkeeping, income and expenses.

2. Referrals.

   a. Cooperative Extension Service.

   b. IRS toll-free telephone, and walk-in service.

   c. Other publications and forms.

   d. Professional preparers.

Outline 16

DIRECT SELLERS

Focus:

Explain the tax responsibilities of self-employed direct sellers who sell products on a person-to-person basis.

References:

Publication 911, Tax Information for Direct Sellers

Publication 587, Business Use of Your Home

Schedules C and SE

Form 1040 Instructions

WHO IS A DIRECT SELLER?

1. A person who sells or solicits sales in a place other than a permanent business establishment.

2. Remuneration is based on sales or output only.

3. Services are performed under a written non-employee contract.

WHO IS NOT A DIRECT SELLER?

1. A person serving only as a party host.

2. Hobbyists.

3. Persons making certain occasional sales.

DETERMINING INCOME AND EXPENSES

1. Income includes:

   a. Receipts from sales made personally.

   b. Commissions or bonuses on personal sales or the sales of other direct sellers.

   c. Prize, awards and gifts received in connection with selling business.

2. Expenses include:

   a. Cost of goods sold and operating expenses.

   b. Capital expenditures.

      Discuss repeal of investment credit and transitional rules. Also, MACRS, new classes of property and recovery periods. Explain increase in IRC 179 deduction.

   c. Meals and entertainment.

      Generally limited to 80% of expenses.

   d. Business use of the home.

   e. Business expense limitations.

REPORTING INCOME AND EXPENSES

1. Direct selling for profit.

   a. Schedule C for income and expenses with Form 1040.

   b. Schedule SE for self-employment tax.

2. Direct selling as a not-for-profit activity.

   a. Income on Form 1040 as other income.

   b. Expenses on Schedule A.

      Discuss 80% limitation on meals and entertainment and 2% floor. Review substantiation requirements for meals.

OTHER FORMS A SELLER MAY NEED TO FILE

1. Direct seller with employees.

   a. Forms 941 and 940.

   b. Forms W-2 and W-3.

c. Form SS-4.

2. Direct seller with other direct sellers working under him or her.

   a. Form 1099-MISC for each person ordering or receiving commissions of more than a specified dollar amount during the year.

   b. Forms 1096, SS-4.

3. Capital assets - Forms 4562.

Discuss increased penalty for failure to file information returns and for failure to provide copies.
See Topic Outline 23.

SUMMARY

1. Review highlights.

2. Referrals.

   a. IRS toll-free telephone, and walk-in service.

   b. Professional preparers.

Outline 17

BUSINESS EXPENSES

Focus:

Explain the types of direct and indirect allowable business expenses.

References:

Publication 334, Tax Guide for Small Business

Publication 535, Business Expenses

INTRODUCTION

Allowable business expenses are those expenses ordinary, necessary and customary in the course of conducting the business.

DIRECT EXPENSES

1. Advertising.
2. Supplies.
3. Office expenses.
   a. When office is separate structure.
   b. When office is in home.
4. Vehicle expenses.
   a. Standard mileage rate.
   b. Actual expense.
   c. Limitations may apply.

Employees' unreimbursed expenses deductible only on Schedule A as miscellaneous expenses, subject to 2% of AGI floor; limits on luxury automobiles.

INDIRECT EXPENSES

1. Depreciation.

Discuss MACRS, new classes of property and recovery periods and IRC 179 expenses.

2. Amortization - start-up costs.

3. Depletion.

SUMMARY

1. Review ordinary and necessary expenses for the production of income.

2. Review direct and indirect expenses.

3. Referrals.

   a. IRS toll-free telephone, and walk-in service.

   b. Other publications.

      Publication 225, Farmer's Tax Guide.

      Publication 463, Travel, Entertainment, and Gift Expenses.

   c. Other local and state business resource centers.

   d. Small Business Tax Workshops and other IRS programs.

Outline 18

DEPRECIATION

Focus:

Introduce depreciation methods and calculations.

References:

Publication 334, Tax Guide for Small Business

Publication 534, Depreciation

Form 4562, Depreciation, and instructions.

WHAT CAN BE DEPRECIATED?

1. Tangible property.

2. Intangible property.

SECTION 179 DEDUCTION

1. Qualifying property.

   Limit on amount of property that can be deducted under IRC 179 increased to $10,000 for property placed in service after 12/31/86.

2. Figuring the deduction.

   Discuss limitations. Can't exceed income from business.

3. Special rules.

   Deduction reduced by amount of property placed in service during the year that exceeds $200,000.

FIGURING DEPRECIATION

1. Basis

2. Amount of deduction.

   Business use must be more than 50 percent in year placed in service. If usage in a later year drops to 50 percent or less, recapture is required.

3. Methods.

ACRS and MACRS

1. Recovery periods.

New classes of property and recovery periods for property placed in service after 12/31/86. Stress transition rules.

2. Figuring ACRS and MACRS deductions.

3. Retirement of assets.

4. Alternate ACRS method.

5. Excluded property.

OTHER DEPRECIATION METHODS

1. Straight line.

2. Declining balance methods.

3. Additional methods.

SPECIAL RULES

1. Changing methods.

2. Class Life Asset Depreciation Range System

"LISTED" PROPERTY

1. Restrictions and limitations for listed property (automobiles, entertainment property, home computers) used for business and personal purposes.

2. Automobiles - Depreciation and section 179 deduction ceilings, depending on when placed in service.

3. Recordkeeping rules. — See Topical Outline 27.

4. Employer-provided cars as fringe benefits. — Explain valuation rules.

SUMMARY

1. Review Form 4562.

2. Referrals.

   a. IRS toll-free telephone, and walk-in service

   b. Local business resource centers or professional preparers.

   c. Service Corps of Retired Executives (SCORE) or Active Corps of Executives (ACE)

Outline 19

INVESTMENT TAX CREDIT

Focus:

Explain investment credit calculations and limitations.

Peferences:

Publication 334, Tax Guide for Small Business

Publication 572, General Business Credit

Form 3468, Investment Credit

QUALIFYING PULFS FOR INVESTMENT TAX CPEDIT

1. Pegular investment credit repealed for years ending after December 31, 1985.
2. Exceptions
   a. Transition property
   b. Business energy property
   c. Qualified rehabilitation property
   d. Other

COMPUTING ALLOWAPLE CREDIT

1. Use Form 3468.
2. Use Form 3800 or 1045 for carrybacks and carryovers.

   Discuss the phased-in reductions for carry forwards.
3. Use Form 4255 for recapture of investment credit.

SUMMARY

1. Qualifying property.

2. Repeal of credit for tax years ending after December 31, 1985.

3. Form 3468 to figure credit.

4. Carryback, carryover and recapture.

5. Referrals.

   a. IRS toll-free telephone, and walk-in service.

   b. Other business agencies, when appropriate.

   c. Service Corps of Retired Executives (SCORE) or Active Corps of Executives (ACE).

   d. Professional preparers.

Outline 20

SELF-EMPLOYMENT TAX

Focus:

Determine who is liable for self-employment taxes, when taxes should be paid, and what they cover.

References:

Publication 533, Self-Employment Tax

Schedule SE

GENERAL REQUIREMENTS

1. Define self-employment tax.
2. Forms taxpayer must file.
3. Income limitaion and current rate.
4. Estimated taxes.

Discuss the 90% requirement for 1988 and the many changes to the tax law that will affect estimated tax payments.

COMMON CATEGORIES OF SELF-EMPLOYED PERSONS

1. Sole proprietors.
2. Independent contractors.
3. Partners.

FIGURING SELF-EMPLOYMENT TAX

1. Schedule SE and other forms used.
2. Due dates.

SUMMARY

1. Review who is liable and how to report.

2. Referrals.

   a. IRS toll-free telephone, and walk-in service.

   b. Small Business Tax workshops and other IRS programs.

   c. Small Business Administration and Social Security Administration.

   d. Other local or state business resource programs.

   e. Publication 334, Tax Guide for Small Business.

Outline 21

EMPLOYMENT TAXES

Focus:

Explain employer's responsibilities for income tax withholding, social security tax (FICA) and unemployment tax (FUTA).

Reference:

Publication 15, Circular E, Employer's Tax Guide

Publication 334, Tax Guide for Small Business

Publication 51, Circular A, Agricultural Employer's Tax Guide

Publication 225, Farmer's Tax Guide

Forms 940, 941, 943, W-2, W-3, W-4

INTRODUCTION

1. Common law employees.
2. Statutory employees.
3. Form SS-4, Employer's Identification Number.

FORM W-4

1. W-4 helps employer determine the amount of income tax to withhold.
2. Form remains on file with employer until employee gives revised one.

   Go step by step through form and worksheet (use film)

3. Employer sends W-4 to IRS if:

   a. Too many exemptions claimed.

   Explain penalties for incorrect or fraudulent W-4.

b. Employee claims exemption and wages exceed current limitations.

Explain qualifications for "exempt"; exempt status only good until February 15; new exempt form must be filed each year.

c. Retention period.

FORM W-2

1. Provide to employees by January 31.

2. Send Copy A to Social Security Administration by last day of February with Form W-3.

3. Magnetic media reporting.

Explain requirements and penalties.

FORM 941

1. Employer's Quarterly Federal Tax Return

Discuss due dates for filing.

   a. Income tax withholding on wages, salary, and tips.

   b. Withholding of Social Security (FICA) tax.

2. Deposit requirements.

FORM 943

1. Employer's Annual Tax Return for Agricultural Employees.

Due dates for filing.

2. Definition of farm workers and coverage.

Disuss new $2,500 test for 1988 FICA. Stress new rules for children employed by parent, person employed by spouse.

3. Voluntary income tax withholding.

4. Deposit requirements.

FORM 940

1. Employer's Annual Federal Unemployment (FUTA) Tax Return.

   Generally, FUTA is not paid

2. Definition of program.

3. Who must file.

   Discuss due dates for filing.

   a. General employers.

   b. Agricultural employers.

      Discuss crew leaders.

   c. Employers of household help.

4. Deposit requirements.

SUMMARY

1. Review appropriate forms and due dates.

2. Review deposit requirements.

3. Referrals.

   A. IRS toll-free telephone and walk-in service.

   b. Other publications.

      Publication 539, Employment Taxes.

      Publication 919, Is My Withholding Correct for 1989?

   c. Other local and state business resource centers.

   d. Small Business Tax workshops and other IRS programs.

Outline 22

TIP REPORTING FOR EMPLOYERS

Focus:

Explain rules to employers for reporting withholding and allocating employee tips.

References:

Publication 539, Employment Taxes

Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips

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SOURCES AND TYPES OF TIPS

1. Cash.
2. Credit card tips.
3. Tip splitting.
4. Gratuities and service charges.

REPORTING OF TIPS BY EMPLOYEE

1. Maintenance of a daily, written log or use of Form 4070.
2. Due dates and dollar criteria.
3. Required information.
   a. Employee's name, address and SSN.
   b. Employer's name and address and EIN.
   c. Calendar month covered.
   d. Total of tips received.
   e. Signature and date.

WITHHOLDING CRITERIA ON TIPS

1. Social security (FICA).

Beginning in 1988 all tips (up to $45,000 limit of combined wages and tips) are subject to employer's share of FICA.

2. Income tax.

   a. Use of tax tables.

   b. Use of flat rate.

3. Deposit requirements.

ALLOCATING TIPS

1. When required.

2. Two methods of allocation: total receipts or number of hours worked.

For years after 1986, method using number of hours worked can only be used by establishment with fewer than equivalent of 25 full-time employees during a payroll period.

2. Request for lower rate.

3. Requirement for Form 8027.

REPORTING TIP INCOME TO EMPLOYEE

1. Include on W-2

Employees can prove a fewer amount with adequate records.

2. Due date.

SUMMARY

1. Restatement of requirements.

2. Other reference sources.

   a. Publication 531, Reporting Income from Tips.

   b. Publication 1244, Employee's Daily Record of Tips.

Outline 23

INFORMATION RETURNS

Focus:

Explain the various types of payments reported on information returns.

References:

Publication 916, Information Returns

Publication 334, Tax Guide for Small Business

Instructions for Forms 1099, Form 1096, etc.

MAIN CATEGORIES OF INFORMATION RETURNS

1. Information returns for payments to nonemployees and transactions with other persons.

   Discuss need for early mailing of 1099s and W-2s; penalty for not providing statements remains $50 each occurrence, but maximum now $100,000.

   a. Form 1099 series.

   b. Other forms.

   Discuss information reporting for royalty returns.

2. Information returns employers file to report wages and other payments to employees.

   Forms W-2, 1099 series, etc.

3. Information returns for persons subject to special provisions of the tax law.

   a. Partnerships.

   b. S corporations.

   c. Exempt organizations.

WHEN AND HOW TO FILE

1. Paper documents.

2. Magnetic media filing requirements as appropriate.

3. Statements for recipients.

Refer to appropriate Revenue Procedures.

Review penalties noted above; enclosure restrictions have been eased to include account statements and checks.

BACK-UP WITHHOLDING

Discuss provisions.

SUMMARY

1. Review highlights.

2. Referrals.

   a. IRS toll-free telephone, and walk-in service.

   b. Specific publications or forms for each type of information return.

   c. Social Security Administration and Railroad Retirement Board.

   d. Private sources such as service bureaus.

Outline 24

MAGNETIC MEDIA REPORTING

Focus:

Explain the basic requirements for submitting information returns on magnetic media.

References:

Publication 334, Tax Guide for Small Business

Publication 916, Information Returns

Current Revenue Procedures

INTRODUCTION

1. Current regulations and requirements.

   a. Forms that must be filed.

   b. Formats and procedures that must be used.

2. Revenue procedures.

   a. Tape filing.

   b. Disk filing.

   c. Other filing formats.

3. Waivers.

STEPS IN FILING ON MAGNETIC MEDIA

1. Form 4419, Application for Magnetic Media Reporting of Information Returns.

   Refer to Publication 916.

   a. Where to file

   b. When to file.

2. Form 4804, Transmittal of Information Returns Reported on Magnetic Media.

3. Forms W-2 and other tax forms filed on magnetic media.

EXCEPTIONS TO FILING ON MAGNETIC MEDIA

1. Hardship waivers.

   a. Required information.

   b. Where and when to file.

2. Split filing situations.

   a. Form 1096, Annual Summary and Transmittal of U.S. Information Returns.

   b. Problems.

PENALTIES

1. Types and amounts.

2. Due diligence provisions.

SUMMARY

1. Review procedures, requirements and exceptions for magnetic media filing.

2. Referrals.

   a. District IRS office or National Computer Center.

   b. Social Security Administration.

   c. Current Revenue Procedures.

   d. Service bureaus and paying or disbursing agents.

   e. Other forms and publications as appropriate.

Outline 25

HEAVY VEHICLE USE TAX

Focus:

Explain how to report the taxes on vehicles subject to the heavy vehicle use taxes.

References:

Publication 349, Federal Highway Use Tax on Heavy Vehicles

Publication 378, Fuel Tax Credit

Form 2290, Heavy Vehicle Use Tax Return

INTRODUCTION

Discuss purpose of heavy vehicle use tax.

WHO MUST FILE

1. Registered owner.
2. Weight class.
3. Exempt vehicles.

Suspension of tax if mileage for year expected to be less than 5,000 miles (7,500 miles for agricultural vehicle).

Canadian and Mexican registered vehicles taxable after June 30, 1987, if used in U.S.

4. Discuss excise tax on diesel fuel, if applicable.

FORM 2290

1. Calculation of tax.
2. When and where to file.

Credits

1. Types of fuel.
2. How to qualify.

SUMMARY

1. Review highlights.

2. Referrals.

   a. IRS toll-free telephone, and walk-in service.

   b. State and local government agencies.

Outline 26

TROUBLE SHOOTING YOUR TAX RETURN

Focus:	References:
Alert taxpayers to common errors and appropriate tax law changes.	Publication 553 Highlights of Tax Changes

COMMON ERRORS

1. Computations.
2. Missing items (signatures, boxes not checked, etc.). — Social security numbers are needed for dependents age 5 or older.
3. Omission or incorrect use of credits.
4. Omission or incorrect use of forms and related schedules.
5. Use of incorrect tax table or schedule.

CHECKLIST FOR POSSIBLE ERRORS

1. Verify mathematical computations.
2. Look for proper line item placement.
3. Include all income.
4. Attach all appropriate forms and related schedules.
5. Sign and date return when required.
6. Use the label; correct if necessary.
7. Use envelope provided or properly address envelope, if necessary. — Stress sufficient postage.

TAX LAW CHANGES

1. Entity section.

2. Income section.

Dividend exclusion, capital gains, repeal of 3-year rule for pensions.

3. Deduction/adjustment section.

   a. Business forms.

Unreimbursed employee business expenses can be claimed only on Schedule A.

   b. Individual forms.

Stress changes to itemized deductions, adjustments.

   c. Commonly omitted deductions.

Standard deduction is not built into the tables. Taxpayer must enter the correct amount on form.

4. Tax computation.

Income averaging repealed.

5. Credits.

6. Other taxes.

   a. Employment.

   b. Self-employment.

   c. Excise.

   d. Other as appropriate.

7. Payments.

   a. Business (including deposits).

   b. Individual.

SUMMARY

1. Review specific error trends.

2. Review most important tax changes.

3. Referrals.

   a. Toll-free telephone, Tele-tax and walk-in service.

   b. VITA/TCE assstance sites.

Outline 27

RECORDKEEPING

Focus:

Importance of recordkeeping; what records should be kept, and how long.

References:

Publication 17, Your Federal Income Tax

Publication 334, Tax Guide for Small Business

Publication 552, Recordkeeping

Publication 583, Information for Business Taxpayers

IMPORTANCE OF RECORDKEEPING

1. Identify source of receipt.
2. Prevent omission of deductible expenses.
3. Establish earnings for self-employment tax.
4. Explain items reported on income tax returns.

KEEPING RECORDS

1. Records supporting income or deduction — 3 years from due date of return, or date filed, whichever is later.

   Substantiation rules for meals have tightened; adequate records required.

2. Employment records - 4 years.
3. Copies of tax returns - indefinitely.
4. Records pertaining to assets - as long as asset is owned, or relates to tax return information.

RECORDKEEPING FOR BUSINESS OWNERS

1. Accounting methods.

   a. Cash.

   b. Accrual.

2. Travel and entertainment.

   a. Business purpose vs. personal use.

   b. Proper records for substantiation.

After 1986, deductions for food expenses not allowed unless directly related to active conduct of trade or business, subject to 80% limitation.

3. Other business expenses.

SUMMARY

1. Review recordkeeping rules.

2. Referrals.

   a. IRS toll-free telephone, and walk-in service.

   b. Small Business Tax Workshops or other government agency programs.

   c. VITA/TCE assistance sites.

   b. Other publications.

Outline 28

FRINGE BENEFITS

Focus:

Fringe benefits rules.

References:

Publication 334, Tax Guide for Small Business

Publication 17, Your Federal Income Tax

OVERVIEW

1. Generally taxable.

2. Exclusions.

3. Income tax withholding, FICA, FUTA.

RULES FOR EXCLUSION OF EMPLOYER-PROVIDED VEHICLES

1. Adequate records.

2. Written policy statement.

3. Qualified nonpersonal use vehicles.

4. Valuation rules, including commuting valuation rule.

SUMMARY

1. Review fringe benefit rules.

2. Referrals.

   a. IRS toll-free telephone, and walk-in service.

   b. Local business resource centers or professional preparers.

Outline 29

INSTALLMENT SALES

Focus:

Explain the tax consequences of installment sales and subsequent events which may affect the sale

References:

Publication 537, Installment Sales

Publication 908, Bankruptcy

INTRODUCTION

1. Definition.

2. Sale vs. lease.

Discuss sales of depreciable property to related parties.

REPORTING OF SALE

1. Form 6252, Computation of Installment Sale Income.

Point out the worksheet for Allocable Installment Indebtedness, in instructions for Form 6252.

2. Schedule D, Capital Gains or Losses.

Capital gain deduction is repealed for tax years beginning after 1986.

3. Schedule B, Interest Income.

EFFECTS OF BANKRUPTCY

1. To seller.

2. To buyer.

TAX CONSEQUENCES OF REPOSSESSIONS

1. To seller.

2. To buyer.

SUMMARY

1. Recap reporting of installment sales.

2. Referrals.

   a. IRS toll-free telephone, Tele-Tax and walk-in service.

   b. Professional preparers.

Outline 30

BARTERING

Focus:

Define and explain the tax consequences of bartering.

References:

Publication 525, Taxable and Nontaxable Income.

INTRODUCTION

1. Definition.

2. Examples of bartering.

TYPES OF BARTERING

1. Services.

2. Goods.

3. Barter clubs.

   a. How clubs work.

   b. When included in income.

HOW TO REPORT

1. Business - sole proprietors, partnerships and corporations.

2. Personal (nonbusiness).

3. Combined business and personal.

Refer to Form 1099-B and related instructions.

SUMMARY

1. Stress tax consequences.

2. Referrals.

   a. IRS toll-free telephone, and walk-in service.

   b. Other publications :

      Publication 17, Your Federal Income Tax.

      Publication 334, Tax Guide for Small Business.

Outline 31

EMPLOYEE BENEFIT PLANS

Focus:

Explain the tax consequences of various types of employee benefit plans.

References:

Publication 334, Tax Guide for Small Business

Publication 560, Self-Employed Retirement Plans.

Publication 590, Individual Retirement Arrangements (IRAs)

Form 8606

DEFINITION OF EMPLOYEE BENEFIT PLANS

QUALIFIED EMPLOYEE BENEFIT PLANS

1. Requirements to qualify.

2. Types of qualified employee benefit plans.

   a. Defined contribution plans.

   b. Defined benefit plans.

   c. Other plans, as appropriate.

SELF-EMPLOYED RETIREMENT PLANS

Tax Reform Act of 1986 clarifies the deduction limits for allowable contributions.

INDIVIDUAL RETIREMENT ARRANGEMENTS

1. Setting up the IRA.

   Discuss the limits to the IRA deduction for tax years beginning after 1986.

2. IRA for nonworking spouse.

   For tax years beginning after 12/31/85 a working spouse can elect to be treated as having no income for purposes of spousal IRA.

3. Nondeductible contributions to IRA.

   Refer to Form 8606 for designating nondeductible IRA contributions.

SIMPLIFIED EMPLOYEE PENSION PLANS

SUMMARY

1. Restate the important points.

2. Referrals.

   a. IRS toll-free telephone, Tele-Tax and walk-in service.

   b. Other publications and forms that may be appropriate.

Outline 32

MEDICARE CATASTROPHIC COVERAGE

1. Supplemental medicare premium (medicare tax)

2. Income tax liablilty

   a. No medicare tax has to be paid by an individual whose income tax liability is less than $150.

   b. Highest tax for 1989 is $800 per individual and $1,600 per couple.

Effective for tax years after 1988, elderly and disabled individuals will be subject to a new supplemental medicare premium. The premium will be be collected in the form of a tax via the federal income tax return. The amount of the tax depends on the size of the individual's income tax liability. Explain the components of the premium.

Discuss who has to pay the premium, and how to compute it.

References: Use appropriate form and publication.

*U.S. Government Printing Office: 1989-242-501/06082